Teachers' Retirement System of the State of Illinois

Bill Analysis

Senate Bill 27 (amendment #2)
Pension Benefit changes and Funding Reduction

Sponsor: Molaro, Robert / Schoenberg, Jeffrey

Summary: The legislation provides for changes of benefits in TRS, extends and modifies the Early Retirement Option (ERO) plan, reduces state contributions to TRS, and establishes a pension task force to study other changes to Illinois pension systems. Many of the provisions in the bill are contingent upon the date the legislation is signed into law.

The Early Retirement Option

The ERO program is changed to allow individuals who have indicated that they will retire within the next two years under the program to utilize the program that was in effect from 2000 to 2005. The new ERO is extended for an indefinite period of time, provided the program is cost neutral to the state.

Members must provide documentation to TRS to confirm that they have elected to retire under the ERO that is expiring on June 30, 2005. These members will be allowed to retire under this program until July 1, 2007. This documentation must be completed by the effective date of the bill. The effective date is dependent upon when the Governor signs the legislation. The documentation must include the following:

1) Copy of the notification to the employer or record of that notification
2) An affidavit signed by the member and employer verifying the notification
3) Any additional documentation required by TRS

For members who retire under the provisions outlined above, the following apply. No contributions are required by either the member or the school district for members with 34 years of service. Members must apply for retirement within six months of their last day of teaching and make the required contribution of 7% for each year under the age of 60 or number of years under 35 years of service, whichever is less. School districts must pay 20% of salary for each year the member is under the age of 60.

The new modified ERO program is extended until 2012. The program requires a member contribution of 11.5% for each year under the age of 60 or number of years under 35 years of service, whichever is less. In addition, the contribution rate for all active members is increased by .4%. This contribution will be refunded to the member if the ERO is not utilized at the time of retirement or if the program is terminated. The employer contribution shall be 23.5% for each year the member is under the age of 60. Payment of the employer contribution will not affect the date the member can retire. The employer can limit the program to 10% of those members who are eligible for the program.

Extension of the program will be contingent upon an evaluation by TRS and recommendations from the Commission on Government Financing and Accountability (COGFA) on the rates needed to keep the program revenue neutral to the state. COGFA must make the recommendations to the General Assembly by February 1 of the year following TRS's actuarial evaluation of the program. COGFA then will make recommendations to the General Assembly who then must enact the necessary changes in order for the program to be extended. If the General Assembly does not act, then the program will cease to exist at the end of the fiscal year in which COGFA made the recommendation.

TRS Benefit Changes

The legislation makes several changes to the TRS benefit structure. These changes include the use of sick leave as service credit, the payment of the liability associated with pay increases used to compute a pension benefit, and the elimination of the money purchase benefit for new hires.

The employer must pay for sick leave granted over the normal annual allotment. Current contracts and collective bargaining agreements that provide for the granting of sick leave are exempt from the provisions contained in the bill.

The liability for pay increases that exceed 6% of the previous years' salary that are used in the calculation of a benefit will be paid for by the school district. The school district contribution must be paid within 30 days after the receipt of the bill. All current contracts and collective bargaining agreements in effect as of the effective date of the bill are exempt from this provision.

The money purchase benefit is eliminated for teachers who become members after July 1, 2005.

Funding

The fiscal year 2006 state contribution is $534.6 million or a $523.9 million reduction from the certified amount of $1,058.5 million. TRS is required to recalculate the fiscal year 2006 contribution taking into account the funding change contained in the legislation. The legislation also sets the fiscal year 2007 contribution at $738.0 million. This is a $497.6 million reduction from the fiscal year 2007 projected contribution of $1,235.6 million.

The reduced contribution amount used in fiscal year 2007 shall be used as the starting point by which state contributions will be calculated from 2008 through 2010. The increase shall be in equal amounts so that by 2010, the state is contributing at a level amount that is needed to achieve 90% funding by the year 2045.

The TRS portion of the funding for the state Early Retirement Incentive (ERI) Program has been placed under the funding plan. The contributions for this liability that was formerly scheduled to run through 2015 will now be extended through 2045.

New Benefits

The legislation provides that all new benefit increases must meet the following criteria:

1) Funding must be identified to sufficiently fund the increase in the cost to the system
2) Funding must be provided by the General Assembly in compliance with the recommendation of COGFA and the Public Pension Division of the Department of Financial and Professional Regulation
3) New benefits that do not have sufficient funding are deemed to be “null and void”
4) New benefits shall expire in five years after they are enacted
5) A new benefit that expires will only apply to members who “apply and qualify” for the benefit

Commission on Pension Benefits

An Advisory Commission on Pension Benefit is established under the bill. The Commission shall consist of 15 members. Eight members are appointed by the Governor, of which four shall represent statewide labor organizations with two representing teacher unions. Each leader of the General Assembly shall appoint one member. The directors of the Teachers’ Retirement System, State Employees’ Retirement System, and the State Universities Retirement System shall serve as ex-officio members of the Commission.

The Commission shall make recommendations on changing the age and service requirements, the automatic annual increase, the member contribution rate, and any other issues as determined by the Commission. The report shall be submitted to the Governor and the General Assembly by November 1, 2005.